

European Journal of Small Business and Entrepreneurship Research

Vol.3, No.2, pp.38-52, March 2015

Published by European Centre for Research Training and Development UK(www.eajournals.org)

**MODERATING EFFECT OF SOCIAL NETWORKING ON THE
RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE IN NAKURU
COUNTY, KENYA**

Sila Kiprotich

Department of Accounting and Finance, School of Business and Economics, Moi University,
P.O. Box 3610, post code 30100, Eldoret, Kenya, Tel +254724-381-475,

Dr. Joyce Kimosop

Department of Management Science, School of Business and Economics, Moi University, P.O.
Box 3900 - 3100, Eldoret, Kenya

Ambrose Kemboi

School of Business and Economics, Rongo University, P.O. Box 1630, post code 30100, Eldoret,
Kenya, Tel +254724-900-596,

Chepkwony, Protus Kiprop

Department of Accounting and Finance, School of Business and Economics, Moi University,
P.O. Box 3610, post code 30100, Eldoret, Kenya, Tel +254728-407-719,

ABSTRACT: *An emerging stream of research indicates that entrepreneurial orientation is a critical factor in enhancing entrepreneurial outcomes such as firm performance. However, few studies have examined how a firm's embeddedness in inter-firm networks influences enterprise performance. The study aimed at evaluating the moderating effect of social networking on the relationship between entrepreneurial orientation and Small and Medium Enterprises performance in Nakuru town Kenya. The specific objectives were; to determine the effect of risk-taking and pro-activeness on performance of small and medium enterprises and finally to determine the moderating effect of social networking on relationship between entrepreneurial orientation and performance of small and medium enterprises. The study utilized the resource based view theory (Barney 1991). Explanatory research design guided the study. A questionnaire was used to collect data from a sample of 214 SMEs in Nakuru town. Collected data was analyzed using descriptive and inferential statistics. Correlation and multiple regression analysis were employed to test the hypotheses. The results indicated that Risk-taking, Pro-activeness and Innovativeness were significant in affecting performance of SMEs. Also the results revealed that social networking positively moderates the relationship between risk-taking Proactiveness and performance of SMEs. It is recommended that SMEs need to endeavor and embrace social networking since it offers a cost effective way in expanding contact bases and enhancing the profitability of firm. Finally the study contributes to knowledge and theory by establishing the moderating effect of social networking on the relationship between entrepreneurial orientation and performance of SMEs in Kenya.*

KEYWORDS: *social networking, Entrepreneurial orientation, Small and Medium Enterprises performance, Risk-taking and Pro-activeness*

INTRODUCTION

Entrepreneurship scholars have attempted to explain performance by investigating the relationship between entrepreneurial orientation and firm performance (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005; Zahra & Garvis, 2000). Some studies found that entrepreneurial orientation enables firms newly built or less than ten years old (Lussier, 1995), to perform better than competitors and enhance firm performance (Ireland, Hitt, & Sirmon, 2003; Lumpkin & Dess, 2001; Wiklund & Shepherd, 2005; Zahra & Garvis, 2000). However, the results of empirical studies are mixed. The varied empirical results raise the question of whether entrepreneurial orientation is always an appropriate strategic orientation or if its relationship with performance is more complex (Hui Li, 2006).

The increasing use of networks for SMEs has been reported as a factor influential in the developmental process of entrepreneurial activity (Baines & Wheelock, 1998). A careful review of the related literature on the subject of entrepreneurial networks revealed that the most cited entrepreneurial network types are: institutional networks; business networks; social network; informational networks; scientific and technical networks; profession networks; user networks; friendship networks; and recreation networks (OECD, 2000). According to the Global entrepreneurship monitor, people that start businesses are more likely to know and interact with other entrepreneurs than those who do not. Focusing on social network analysis turns attention to relationships between entrepreneurs and others that provide the resources that are important in establishing a business (Johannisson, 1988; Larson, 1991). Entrepreneurs have ideas to test, and some knowledge and competence to run the business, but they also need complementary resources to produce and deliver their goods or services (Teece, 1987). They get support, knowledge, and access to distribution channels through their social networking. Entrepreneurial orientation is the processes, structures, and behaviors of firms that are characterized by proactiveness, and risk taking (Covin & Slevin, 1989; Miller, 1983). Notwithstanding the possibility that these two dimensions may vary independently of one another (Lumpkin & Dess, 2001), Hui Li (2006) view entrepreneurial orientation as the simultaneous exhibition of proactiveness, and risk taking and thus focus on the performance implications of a firm's overall entrepreneurial posture which may contribute to higher performance by facilitating a firm's capacity to identify new opportunities with potentially large returns, target premium market segments, and obtain first mover advantages (Wiklund & Shepherd, 2005). To address this problem, this article draws on organizational embeddedness theory (Burt, 1992; Dacin, Ventresca, & Beal, 1999; Granovetter, 1985) to examine the relationships between firms' social networking and their entrepreneurial orientation. Entrepreneurial firms' networking are critical in defining the competitive context, the information and resource flows, and even the mortality of these firms (Baum & Oliver, 1991; Hansen, 1995; Shane & Cable, 2002). We extend this line of research by arguing that firms' entrepreneurial behavior, referred as "entrepreneurial orientation" (EO) by Lumpkin and Dess (1996), is also embedded in their entrepreneurial networks (Hite & Hesterly, 2001). For example, from a structuralist perspective, a firm's risk taking orientation may be contingent upon the nature of its social

networking . Different network structures breed and encourage various levels of firms' risk-taking behavior (Perry-Smith & Shalley, 2003). Nevertheless a strong Entrepreneurial orientation may not be guaranteed of financial performance if there is lack of fit between entrepreneur and social networking in Nakuru .This paper departs from prior research in several ways. First, it complements the atomistic perspective in entrepreneurship research by (HAIBIN YANG AND GREGORY G. DESS) introducing a broad picture of EO formation: by examining the direct, curvilinear and moderating effects of their entrepreneurial orientation and social networking. We argue that firms' entrepreneurial behavior can be more fully understood by examining the social networking relationships in which they are embedded. Second, this paper extends network research by explicitly focusing on the relationships between social networking forces and EO dimensions, an area that has not been thoroughly examined. It suggests a critical linkage between social networking and small and medium enterprise.

Research has shown, however, that new ventures are often unsuccessful in translating an entrepreneurial orientation into higher performance because of a lack of strategic resources (Hitt, Ireland, Camp, & Sexton, 2001). Accordingly, an entrepreneurial orientation will only facilitate wealth creation when firms strategically acquire, develop, and leverage resources that foster both opportunity- and advantage-seeking behaviors through networking (Ireland *et al.*, 2003).

High social network centrality indicates that entrepreneurs have access to many alternative providers of valuable resources (Tsai, 2001). Such privileged access is particularly beneficial to highly entrepreneurial firms since entrepreneurial orientation constitutes a resource-intensive strategic posture that involves much uncertainty (Wiklund & Sheperd, 2005). High social network centrality then facilitates an entrepreneurial orientation by increasing a firm's capacity to quickly identify, access, and mobilize external resources. (Burton *et al.*, 2002).

Statement of the Problem

Access to new markets remains a major challenge to the performance of Small and Medium Enterprises in Kenya. While several factors that may affect the likelihood of small enterprises to access new markets have been identified in literature the role of entrepreneurial orientation is not well understood (Matanda, 2010). Since it is time consuming and difficult for SMES to develop all the resources necessary to successfully commercialize a business idea alone, they normally rely on external contacts for accessing scarce and specialized resources that the firm needs in order to become established and to grow (Gaudici, 2013). The effects of social networking are widely studied and understood to positively affect entrepreneurial opportunities (Stam, 2010; Gaudici, 2013). The importance of social networking in the survival and success of small and medium enterprises cannot be over emphasised and this has been an area that has received very little research attention. Social networking enable entrepreneurs to assemble diverse resources and information. These social networking include the personal network which the entrepreneur has with certain individuals, and the cultural dimension with an overall inclusion of the family and community (Ram, 1994). Most studies reflect a

consensus that social networking are important because they provide entrepreneurs with a diverse information and access to large pool of resources, business opportunities, and markets. Nevertheless, there is still rarity in studies at the present times dealing with the impacts of social networking usage in the success of a business in Kenyan context. Therefore, research concerning the benefits from social networking, as well as the employment of an entrepreneurial orientation, are widely studied, few studies have integrated these theoretical concepts is considered among the most important justifications of the current study and how they relate to firm performance. Consequently, this study will determine the moderating effect of social networking on relationship between entrepreneurial orientation and Small and Medium Enterprises performance in Nakuru County Kenya.

Concept of Entrepreneurial Orientation

Literature reviews show that entrepreneurial orientation has become a central concept in the domain of entrepreneurship that has received a substantial amount of theoretical and empirical attention (Covin, Greene, & Slevin, 2006). EO has been linked with organizational performance, whereby the higher the EO, the higher the level of performance. Entrepreneurial orientation is the presence of organizational-level entrepreneurship and a combination of risk taking, innovation and pro-activeness that must positively covary in order for an EO to be manifested (Wiklund & Shepherd, 2005) and Miller (1983). In addition, Burgelman, 1984; Hart, 1992; MacMillan & Day, 1987; Venkatraman, 1989a), identified competitive aggressiveness and autonomy as additional components of the EO construct.

According to Dess and Lumpkin (2001) EO is an organizational-level strategy-making process that involves the intentions and actions of key players functioning in a dynamic generative process aimed at new-venture creation. An earlier research by Mintzberg (1973) asserts that entrepreneurial orientation is a managerial disposition rooted in decision making and is an area where knowledge is developing. There is a general agreement that EO has an impact on firm performance (Lyon, Lumpkin and Dess, 2000). It is therefore essential in the study since it is a driving force behind the organizational pursuit of entrepreneurial activities for instance small and medium-sized enterprises (SMEs) that are of great benefit to the economy in terms of job creation, development of skills and adaptation of appropriate technologies. Therefore, the promotion of (SMEs) is the best strategy to achieving economic development (Kazem and Van der Heijden, 2006; Hallberg, 2000).

Effect of Risk-Taking on Performance of Small and Medium Enterprises

In an attempt to improve performance, Small and Medium Enterprises are faced with decisions involving risk-taking. Risk-taking and risk management is a major concern especially for small and medium sized enterprises which are particularly sensitive to business risk and competition (Alquier and Lagasse, 2006). Risk taking involves taking

bold actions by venturing into the unknown, borrowing heavily or committing significant resources to ventures in uncertain environments (Coulthard, 2007; Keh *et al.*, 2007; Wiklund and Shepherd, 2005; Baker and Sinkula, 2009). It is therefore necessary for firms to estimate the magnitude of the effect of entrepreneurial orientation on performance. Unless the risk is substantially positive, hearty recommendations for firms to use a high degree of entrepreneurial orientation in management decisions appear misdirected (cf. Wiklund, 1999) because of the risk associated with EO and its demanding resource requirements. Entrepreneurial orientation involves a firm's willingness to innovate and rejuvenate its market offering by taking risks and trying out new and uncertain products and services.

According to (Begley & Boyd, 1987) risk taking has a positive effect on performance measure to a certain level, beyond that level an increase in risk has a negative effect on the performance. The environment in which a firm operates may have an effect on whether a firm takes a risk or not. Firms operating in excessively hostile environments are discouraged from taking unnecessary risks (Zahra & Garvis, 2000) whereas firms operating in munificence environments are more likely to take risks with ready resources and favorable environment (Smart & Vertinsky, 1984). Small and Medium Enterprises with strong entrepreneurial orientation are often characterized with high risk taking in the interest of obtaining high returns. An Organization which assumes responsibility for a specific amount of risks signals is ready to accept consequences for the ambiguity on outcomes of future prospects (Hughes & Morgan, 2007) because firms take risks with a willingness to pursue opportunities that have a probability of producing losses or considerable performance inconsistencies (Morris, 1998).

Since entrepreneurs are individuals who take calculated risk (Kuratko & Hodgetts, 2007), firms adopting a modest level of risk-taking have considerable higher performance compared to their counterparts who assume very high or very low levels of risk-taking (Kreiser *et al.* 2002). Meta-analysis investigating the relationship between risk-taking and performance found positive correlation between the two elements (Rauch *et al.*, 2004, Davis, 2007). Similarly another study in Australia found out that risk-taking which involved taking calculated risk had positive impact on firm performance, but taking risk which was considered as daring actions were considered as detrimental for firm performance (Coulthard, 2007).

The concept of risk-taking has been long associated with entrepreneurship. Early definition of entrepreneurship centered on the willingness of entrepreneurs to engage in calculated business risk (Brockhaus, 2000). Lumpkin and Dess (2006) identified venturing into the unknown as risk taking that leads to high firm performance, though one difficult to quantify. This is because, in addition to monetary risk, it typically entails psychological and social risk (Gasse, 2002; Lumpkin & Dess, 2006). Recent research indicates that entrepreneurs score higher on risk-taking than do non-entrepreneurs, are generally believed to take more risks hence perform better than non-entrepreneurs do because the entrepreneur faces a less structured and a more uncertain set of possibilities (Bears, 2002).

It is expected that firms that have better performance would also have a higher level of risk propensity (Leko Simi & Horvat, 2006). According to Leko-Simi and Horvat (2006), risk-taking propensity can be defined as a tendency to take or avoid risks and it is viewed as an individual characteristic. Theoretical support suggested that dynamic environments will also result in a stronger link between organizational risk-taking and firm performance. Organizations that do not take risks in dynamic environments will lose market share and will not be able to maintain a strong industry standing relative to more aggressive competitors (Covin and Slevin, 2001; Miller, 2003). Khandwalla (2007) found a stronger relationship between organizational risk-taking and firm performance in dynamic environments. According to Khandwalla, organizations need to make bold, risky strategic decisions in order to cope with the constant state of change common in dynamic environments. These arguments suggest that organizational risk-taking will be more positively associated with firm performance in dynamic environments than in stable environments.

Risk-taking will also offer the possibility for high payoffs in munificent environments, due to heightened availability of resources in those environments. It is likely that excessively hostile environments will discourage organizations from taking risks that they consider unnecessary and that might harm firm survival (Zahra and Garvis, 2000). These arguments are consistent with prior research claiming that even risk-taking managers would be discouraged from taking large-scale risks in extremely uncertain environments since the risk-taking would likely not be as effective (Smart and Vertinsky, 2004). On the one hand, Goll and Rasheed (2007) posited that the lack of resources in hostile environments would lead firms to avoid excessive risk-taking and pay greater attention to the conservation of resources. On the other hand, firms operating in munificent environments will be able to afford taking risks, since resources are readily available in such hospitable environments. These arguments suggest that risk-taking will be more positively associated with organizational performance in munificent environments than in hostile environments.

H₀₁: Risk-taking has no significant effect on performance of Small and Medium Enterprises

Effect of pro-activeness on performance of Small and Medium Enterprises

Pro-activeness involves taking responsibility and doing whatever it takes to ensure that there is a successful outcome. It also involves insistence, flexibility and readiness to assume responsibility for failure (Morris, 1998). It is an opportunity-seeking, forward-looking perspective characterized by introduction of new products and services ahead of competitors in order to meet future demand (Okpara, 2009) thus it is more important for first-mover firms in gaining significant advantage over competitors (Lieberman & Montgomery, 1988). Pro-activeness therefore enables a firm to anticipate and act on future wants and needs in order to create a first-mover advantage ahead of the competition (Kropp *et al.*, 2005; Lumpkin and Dess, 2001). (Baker and Sinkula, 2009) because pro-activeness has a far reaching performance implication depending on both organizational and environmental factors.

An investigation on pro-activeness of small business owners in South Africa revealed that there is a positive significant relationship between pro-activeness and business success (Krauss *et al.*, 2005). Accordingly, a proactive entrepreneurial SME is a leader because such a firm has the will and foresight to seize new opportunities (Chandler and Jansen, 2002). In addition, the relationship between organizational performance and pro-activeness among firms at early growth stages revealed a positive influence on business performance (Hughes & Morgan, 2007).

Pro-activeness is simply the ability to take the initiative whenever the situation demands. An entrepreneur's risk-handling capability and pro-activeness are the competence of assessing and addressing in advance from all sources the risks that threaten the achievement of an enterprise's strategic objectives and effectively find solutions in advance to these risks. Cantillion also described the entrepreneur as a rational decision maker who assumed the risk and provided the management of the firm (Kirby, 2001).

Empirical findings also indicate that entrepreneurs are not regarded as merely risk takers, but instead as moderate risk-handlers because they seldom decide to bluntly take risks until a thorough calculation of the potential risk are made. Entrepreneurs, in actuality tend to proactively deal with the risks that potentially damage their business. (Covin 2009) Proactive and risk-taking behaviors also will be more positively associated with firm performance when firms utilize organic structures rather than mechanistic structures. For example, Covin and Slevin (2009) posited that an organic structure allowed firms the flexibility to seize environmental opportunities through proactive behaviors. This flexibility allowed firms to exhibit a rapid organizational response to changing external forces in unpredictable environments, while 'mechanistic' structures are better suited to predictable environments where rapid organizational responses are not typically required (Covin and Slevin, 2009). Khandwalla (2007) argued that the organizational flexibility inherent in organic structures enhanced the value of risk-taking within organizations. He claimed that risk-taking managements usually seize opportunities and make commitments of resources before fully understanding what actions need to be taken. Unless management is flexible, the organization will not be able to adapt itself to the evolving situation (Khandwalla, 2007). These arguments suggest that the three sub-dimensions of entrepreneurial orientation will be more positively associated with firm performance when organizations adopt an organic structure than when they adopt a mechanistic structure.

Ho₂: Pro-activeness has no significant effect on performance of Small and Medium Enterprises

Moderating Effect of Social Networking

This involves the social ties, the influence of friends and family, role models and advisors. Social networks provide access to information and resources necessary for entrepreneurial activity (Tata & Prasad, 2008). Society's perception about, and attitude towards, entrepreneurship is poor (Mayer *et al.*, 2007); whereas social networks was found to be positively related to entrepreneurial opportunity or self-employment in USA, UK and Nigeria respectively (Allen, 2000; Carter & Shaw, 2006; Ekpe *et al.*, 2011; Lawal,

Omonona, Ajani & Oni, 2009; Shane, 2003). Perceived social environment also had positive impact on students' entrepreneurial intentions in China (Yun & Yuanqiong, 2010). A weak relation was found to exist between social norms and entrepreneurial intention, indicating that social environment affect individual's attitude to entrepreneurial intention (Ajzen, 1991; Krueger, 2000). Other studies such as Kuzilwa (2005), Shastri and Sinha (2010), concluded that the possession of education, right attitude to risk, motivation and working experience aside; social environment may hinder identification and exploitation of entrepreneurial opportunity. Nasurdin, Ahmad and Lin (2009) found that social identity (appreciation from family, friends and society if someone becomes an entrepreneur) did not have any significant relationship with entrepreneurial intentions in Malaysia. The inconsistency in these studies suggest the need for a moderator because Baron and Kenny (1986) suggested that when there is inconsistent or weak relation between predictor and criterion variables, then a moderator is necessary.

Ho4. Social networking has no moderating effect on relationship between entrepreneurial orientation and performance of small and medium Enterprises

MATERIALS AND METHODS

Explanatory research design was used in this study. The total population was 4400 licensed SMEs established in Nakuru Central Business District. Stratified sampling was used to select 214 SMEs. A stratified random sample was a useful blend of randomization and categorization, which enabled both a quantitative and qualitative process of study to be undertaken (Cohen, 2003). The study used a questionnaire in data collection. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate among them in the same instrument. Cronbach's coefficient Alpha of more than 0.7 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables.

Data Analysis

The study conducted initial data analysis using simple descriptive statistical measures such as, mean, standard deviation and variance to give glimpse of the general trend. However, correlation analysis was used to determine the nature of the relationship between variables at a generally accepted conventional significant level of $P=0.05$ (Sekaran, 2003). In addition, multiple regression analysis was employed to test the hypotheses. Multiple regression analysis is applied to analyze the relationship between a single dependent variable and several independent variables (Hair *et al.*, 2005). The study also utilize variable inflation factor (VIF) to handle the issue of Multi-collinearity.

The beta (β) coefficients for each independent variable generated from the model, was subjected to a t –test, in order to test each of the hypotheses under study. The regression model used to test is shown below:

$$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_{3a} x_1 * M + \beta_{3b} x_2 * M + \varepsilon$$

Where; y = firm Performance

α - Constant

β_1 , β_2 , and β_3 - Coefficient estimates.

X1 - Risk-taking

X2 - Pro-activeness

M- Social networking

ε - Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 20. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$

RESULTS AND DISCUSSION

Correlation Statistics for Linear Relationship between Variables

Pearson's measures the strength and direction of the linear relationship between variables. From the results, the most significant relationship exists between. Risk-taking was shown to contribute 41.7% of the change in SME performance as indicated by the correlation coefficient value of 0.417 which is significant at $\alpha = 0.01$.

Social network was positively correlated to SME performance as indicated by correlation coefficient value of 0.530 indicating that the social network was a significant factor and contributed up to 53% of the change in SME performance. The inter-independent factor correlation showed that 36.8% of the change in SME performance was significantly accounted for by Proactiveness as shown by correlation coefficient value of 0.368 (significant at $\alpha = 0.01$). This paves way for multiple regression analysis.

Table 1.0 Correlation Statistics for Linear Relationship between Variables

	SME performance	Risk taking	proactiveness	Social network
SME performance	1			
Risk taking	.417**	1		
Proactiveness	.368**	.439**	1	
Social network	.530**	.282**	.585**	.526**
				1

** Correlation is significant at the 0.01 level (2-tailed).

Multiple Regression Analysis and Hypothesis Testing

Model Summary

The study intends to assess of contribution of the independent variables on dependent variable. The study findings in table 1.2 illustrates multiple regression model had a coefficient of determination (R^2) of about 0.484. This means that 48.4% variation of SME

performance is explained/predicted by joint contribution of Proactiveness and risk-taking. The findings are supported by ANOVA(F test) results that the model was fit or none of the parameters was equal to zero hence significance adjusted R square ($F = 62.261$, $p < 0.05$). In addition, Durbin Watson test had value less than two indicating minimal autocorrelation with no effect on the study output (Watson value = 1.442). The rule of thumb was applied in the interpretation of the variance inflation factor which states that a principle with broad application that is not intended to be strictly accurate or reliable for every situation. From table 1.2, the VIF for all the estimated parameters was found to be less than 4 which indicate the absence of multi-Collinearity among the independent factors. This implies that the variation contributed by each of the independent factors was significant independently and all the factors should be included in the prediction model.

Model summary

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	37.591	3	12.53	62.261	.000b
Residual	40.05	199	0.201		
Total	77.641	202			
a Dependent Variable: SME performance					
b Predictors: (Constant), proactiveness, risktaking					

Test of goodness of fit

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.696a	0.484	0.476	0.44862	1.442
a Predictors: (Constant), proactiveness, risk taking				
b Dependent Variable: SME performance				

Hypothesis Testing

Hypothesis 1 (Ho1) revealed that risk-taking has no significant effect on SME performance. However, research findings showed that risk-taking had coefficients of estimate which was significant basing on $\beta_1 = 0.146$ ($p\text{-value} = 0.014$ which is less than $\alpha = 0.05$) implying that we reject the null hypothesis stating that risk-taking has no significant effect on SME performance. This indicates that for each unit increase in the positive effect of SME performance, there is 0.146 units increase in SME performance. Furthermore, the effect of risk-taking was stated by the t-test value = 2.476 which implies that the standard error associated with the parameter is less than the effect of the parameter.

Hypothesis 2 (Ho2) stated that Proactiveness has no significant effect on SME performance. Findings showed that Proactiveness had coefficients of estimate which was significant basing on $\beta_2 = 0.134$ (p-value = 0.021 which is less than $\alpha = 0.05$) hence we reject the null hypothesis, and conclude that Proactiveness has significant effect on SME performance. This implies that for each unit increase in Proactiveness, there is up to 0.134 unit increase in SME performance. Also the effect of Proactiveness is shown by the t-test value of 2.334 which implies that the effect of Proactiveness surpasses that of the error by over 3 times.

Table 1.4 multiple regression model

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	0.954	0.196		4.863	0		
Risktaking	0.121	0.049	0.146	2.476	0.014	0.742	1.347
Proactiveness	0.124	0.053	0.134	2.334	0.021	0.786	1.272
a Dependent Variable: SME performance							

Moderating effect of social networking on the relationship between Proactiveness and SME performance

Hypothesis H_{O4a} stated that, social networking has no significant moderating effect on the relationship between risk taking and SME performance.

The hypothesis was accepted on the basis that $\beta_{4a} = 0.377$ which was significant at $p < 0.05$ and t value = 3.502. Hence, social networking positively moderates effect of risk taking on SME performance as depicted on Table 1.5.

Hypothesis H_{O4b} of the study postulated that social networking has no significant moderating effect on the relationship between Proactiveness and SME performance.

Results in Table 1.5 failed to accept the hypothesis 3 as evidenced by $\beta_{4b} = 0.298$, $p < 0.05$ and t ratio=2.422 suggesting that the relationship between Proactiveness and SME performance was positively moderated by social networking.

Hypothesis H_{O4c} of the study postulated that social networking has no significant moderating effect on the relationship between Innovativeness and SME performance.

However, hypothesis 4c does not hold since $\beta_{4c} = 0.385$, $p < 0.05$ and t value = 3.225. This implied that social networking significantly and positively moderated the relationship between innovativeness and SME performance as illustrated in Table 4.14.

Table 1.5 Moderating effect of social networking on the relationship between Proactiveness and SME performance

	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	1.535	0.253		6.07	0.000		
Risk taking*social networking	0.051	0.015	0.377	3.502	0.001	0.212	1.717
Risk taking*social networking	0.051	0.015	0.377	3.502	0.001	0.212	1.717

	Risk taking* social networking	Proactiveness* social networking
R Square	0.514	0.499
Adjusted R Square	0.504	0.489
Durbin-Watson	1.503	2.484
F	52.406	49.304
Sig.	.000	.000

CONCLUSION

From the findings, there is enough proofing that venturing into the unknown is a risk that leads to high firm performance. Nonetheless, risk-taking will only enhance high payoff in munificent environments due to heightened availability of resources in those environments compared to hostile environments. Specifically, respondents believe that owing to the nature of the environment, it is best to explore the environment gradually through careful and incremental behavior. Further, respondents affirmed that they would rather study a problem thoroughly before deploying resources to solve it rather than being quick to spend money on potential solutions. Therefore, SMEs with modest levels of risk-taking are more likely to perform better than those that assume high or very low levels of risk-taking.

Also, study results show that Proactiveness has a positive and significant effect on the performance of SMEs. As a result, Proactiveness makes it possible for firms to gain competitive advantage through the introduction of new products and services ahead of competitors leading to improved firm performance. Therefore, SMEs that are proactive have the will and foresight to seize new opportunities making them a competitive edge over their competitors.

RECOMMENDATIONS

This study contributes to an evolving body of literature on the impact of social networking on small and medium enterprises. Social networking serve as sources of business asset, information, and getting customers and suppliers. Following the finding stated above, the researcher therefore concluded that, there is a strong positive relationship between social networking and small and medium performance especially in Nakuru county . The study further shows that family /friends shared the largest part of the social network of the group studied. In conclusion, this present study provides the bases for further research questions that will survey individual differences among SMEs owners that is, inter-personal relationship, enthusiasms, values, and so on, that may affect their effectiveness in social networking. Future research should also, address research questions that will enhance in the understanding of formation of networking strategies .

Study results also show that proactiveness has a positive and significant effect on the performance of SMEs. Therefore, there is need for SMEs to introduce new products and services ahead of competitors rather than responding to actions which competitors have initiated. There is also need for firms to be the first to introduce administrative techniques and operating techniques so as to gain competitive advantage.

RECOMMENDATION FOR FUTURE RESEARCH

This study was confined on the moderating effect of social networking on the relationship between entrepreneurial orientation and Small and Medium Enterprises performance in Nakuru County. The study only focused on selected SMEs within Nakuru County hence it is limited in scope due to generalizability of the study thus limiting the reality of the study. To augment the research finding of this study, the study recommends that another research be done on a wider geographical area. Furthermore, conducting a replication study in other service industries is also needed; for example in the hotel service, telecommunication service, post office service and so on. Future researchers may also look more into leadership strategies and their effects on organizational performance since respondents gave exaggerated information on the same. With these considerations, there will be conclusive results on the moderating effect of social networking on the relationship between entrepreneurial orientation and Small and Medium Enterprises performance.

REFERENCES

- Anderson, B.S, Covin, J.G., and Slevin, D.P. 2009. Understanding the relationship between entrepreneurial orientation and strategic learning: An empirical investigation. *Strategic Entrepreneurship Journal*, 3(3): 219-241.
- Baker WE, Sinkula JM (2009).The complementary effects of market orientation and entrepreneurial orientation on profitability in small businesses. *J. Small Bus. Manage.* 47(4):443-464

- Baker, WE, Sinkula, JM. (2009) The Complementary Effects of Market Orientation and Entrepreneurial Orientation on Profitability in Small Businesses. *Journal of Small Business Management*, 47, 4: 443-464.
- Brockhaus, R. H. (1982). The psychology of entrepreneur. In C. A. Kent, D. L. Sexton, K. H. Vesper (Eds.), *Encyclopedia of Entrepreneurship*: pp.39-71. Englewood Cliffs, NJ: Prentice Hall.
- Brush, C. G., Carter, N. M., Greene, P. G., Hart M. M., & Gatewood, E. J. (2002). The role of social capital and gender in linking financial suppliers and entrepreneurial firms: A framework for future research. *Venture Capital International Journal*, 4 (4): 305-323. .
- Banney(1991)– Resource Based Theory (Creating and sustaining competitive advantage)
- Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). *Applied multiple regression/correlation analysis for the behavioral sciences, 3rd Ed.* Mahwah, NJ: Lawrence Erlbaum Associates.
- Coulthard M (2007). The role of entrepreneurial orientation on firm performance and the potential influence of relational dynamism. *J. Glob. Bus. Technol.* 3(1):29-39.
- Covin JG, Slevin DP. 1991. A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship Theory and Practice* 16: 7–24.
- Covin, J. G., Green, K. M., & Slevin, D. P. (2006). Strategic process effects on the entrepreneurial orientation - sales growth rate relationships. *Entrepreneurship Theory and Practice*, 30(1): 57-81.
- G. T. Lumpkin and Gregory G. Dess, (2008). Clarifying the Entrepreneurial Orientation Construct and Linking It to Performance. *The Academy of Management Review*, Vol. 21, No. 1, (Jan., 1996), pp. 135-172. <http://www.jstor.org/stable/258632>
- Hair, J.F. Jr. et al. (2005). *Multivariate data analysis*. Upper Saddle River: Pearson Prentice Hall
- Hughes, M. & Morgan, R. E. (2007) Deconstructing The Relationship Between Entrepreneurial Orientation and Business Performance at The Embryonic Stage of Firm Growth. *Industrial Marketing Management*. 36,651-661
- Ibeh I.N. K. (2004). “Furthering Export Participation in Less Performing Developing Countries: The Effects of Entrepreneurial Orientation and Managerial Capacity Factors,” *International Journal of Social Economics* 31(1/2), 94-110.
- Ireland, R. D., Hitt, M. A., & Sirmon, D. G. (2003). A model of strategic entrepreneurship: The construct and its dimensions. *Journal of Management*, 29(6): 963-989.
- Krauss, S. I., M. Frese, C. Friedrich, and J. Unger (2005), ‘Entrepreneurial orientation and success: A psychological model of success in Southern African small scale business owners’. *European Journal of Work and Organizational Psychology* 14,
- Kropp F, Lindsay NJ, Shoham A (2008). Entrepreneurial orientation and international entrepreneurial business venture startup. *Int. J. Entrep. Behav. Res.* 14(2):102-117.
- Lee, C., Lee, K. & Pennings, J. M. (2001). Internal capabilities, external networks, and performance: A study of technology bases ventures. *Strategic Management Journal*, 22, 615-640.
- Leko-Šimić M, Horvat J (2006). Risk taking propensity and export performance of Croatian exporters. *Manag. Glob. Trans.* 4(4):313- 326

- Li Y, Zhao Y, Tan J, Liu Y (2008). Moderating effects of entrepreneurial orientation on market orientation-performance linkage: evidence from Chinese small firms. *J. Small Bus. Manage.* 46(1):113133
- Lumpkin, G. T., & Dess, G. G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle. *Journal of Business Venturing*, 16(5), 429–451
- Lyon DW, Lumpkin GT, Dess GG (2000). Enhancing entrepreneurial orientation research: operationalizing and measuring a key strategic decision making process. *J. Manage.* 26(5):1055-1085
- Madsen, E.L. 2007. The significance of sustained entrepreneurial orientation on performance of firms – A longitudinal analysis. *Entrepreneurship & Regional Development*. 185–204.
- Miller, D. (1983). “The Correlates of Entrepreneurship in Three Types of Firms,” *Management Science*, 29 (7), 770-791.
- Mintzberg, H. (1973). Strategy-making in three modes. *California Management Review*, 16(2), 44-53.
- Nassiuma, D. K. (2000),” *Survey Sampling; Theory and methods.*” Nairobi University Press, Nairobi
- Nasution, H. N., F. T. Mavondo, M. J. Matanda and N. O. Ndubisi. (2010). Entrepreneurship: Its relationship with market orientation and learning orientation and as antecedents to innovation and customer value. *Industrial Marketing Management, In Press, Corrected Proof.*
- Okpara JO (2009). Entrepreneurial orientation and export performance: evidence from an emerging economy. *Int. Rev. Bus. Res. Papers* 5(6):195-211.
- Peng, M. W., & Luo, Y. 2000. Managerial ties and firm performance in a transition economy: The nature of a Medium-macro link. *Academy of Management Journal*, 43: 486–501
- Rauch A, Wiklund J, Frese M, Lumpkin GT (2004). Entrepreneurial orientation and business performance: cumulative empirical evidence. Paper presented at the 23rd Babson College Entrepreneurship Research Conference. Glasgow, UK.
- Sekaran, U. (2003). *Research methods for business a skill building approach* (4th ed.). New York, NY: John Wiley & Sons, Inc.
- Simsek, Z., Lubatkin, M., & Floyd, S. 2003. Interfirm networks and entrepreneurial behavior: A structural embeddedness perspective. In press in *JOM*
- Smith, K. G., Grimm, C., Gannon, M., & Chen, M. (1991). Organizational information-processing, competitive responses and performance in the U.S. domestic airline industry. *Academy of Management Journal*, 34, 60–85
- Venkatraman, N. (1989a). Strategic orientation of business enterprises: The construct, dimensionality, and measurement. *Management Science*, 35(8), 942-962.
- Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: a configurationally approach. *Journal of Business Venturing*. 20(1), 71-89.
- Zahra, S. A., & Garvis, D. M. (2000). International corporate entrepreneurship and firm performance: The moderating effect of international environmental hostility. *Journal of Business Venturing*, 15, 469-492